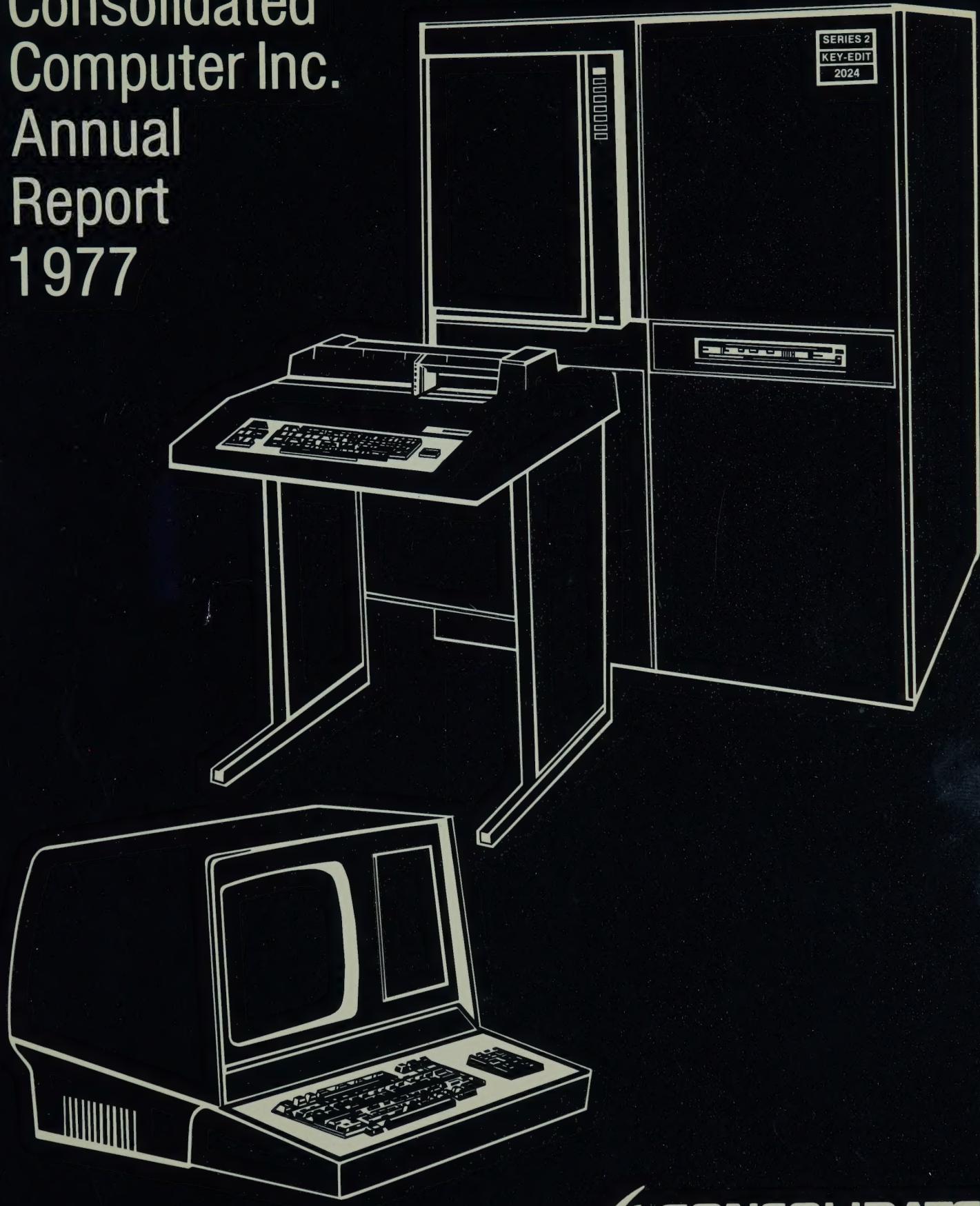


AR45

Consolidated
Computer Inc.
Annual
Report
1977



 CONSOLIDATED
COMPUTER INC.



Corporate Directory

DIRECTORS

D.C. Early

Greenshields Inc.

Rinzo Iwai

General Manager, Small Scale Computer Systems Division
Fujitsu Limited, Tokyo, Japan

J.H. Joyce

Chairman & Chief Executive Officer
Ontario Development Corporation

D. Kendall

Chairman, Enterprise Development Board

D.G. Kilgour

Partner, Kilgour, World, Flood & Ronson

L.K. Sellmeyer

President & Chief Executive Officer
Consolidated Computer Inc.

J.H. Tory

Partner, Tory, Tory, Des Lauriers &
Binnington

OFFICERS OF THE COMPANY

L.K. Sellmeyer

President & Chief Executive Officer

D.C. Heuston

Vice President, Finance & Treasurer

P.C. Baines

Vice President, Marketing

W.H.C. Kooij

Vice President, Advanced Systems
Development

D.G. Kilgour

Secretary

REGISTRAR AND TRANSFER AGENT

Royal Trust Company

BANKERS

The Toronto-Dominion Bank
First National Bank of Boston

AUDITORS

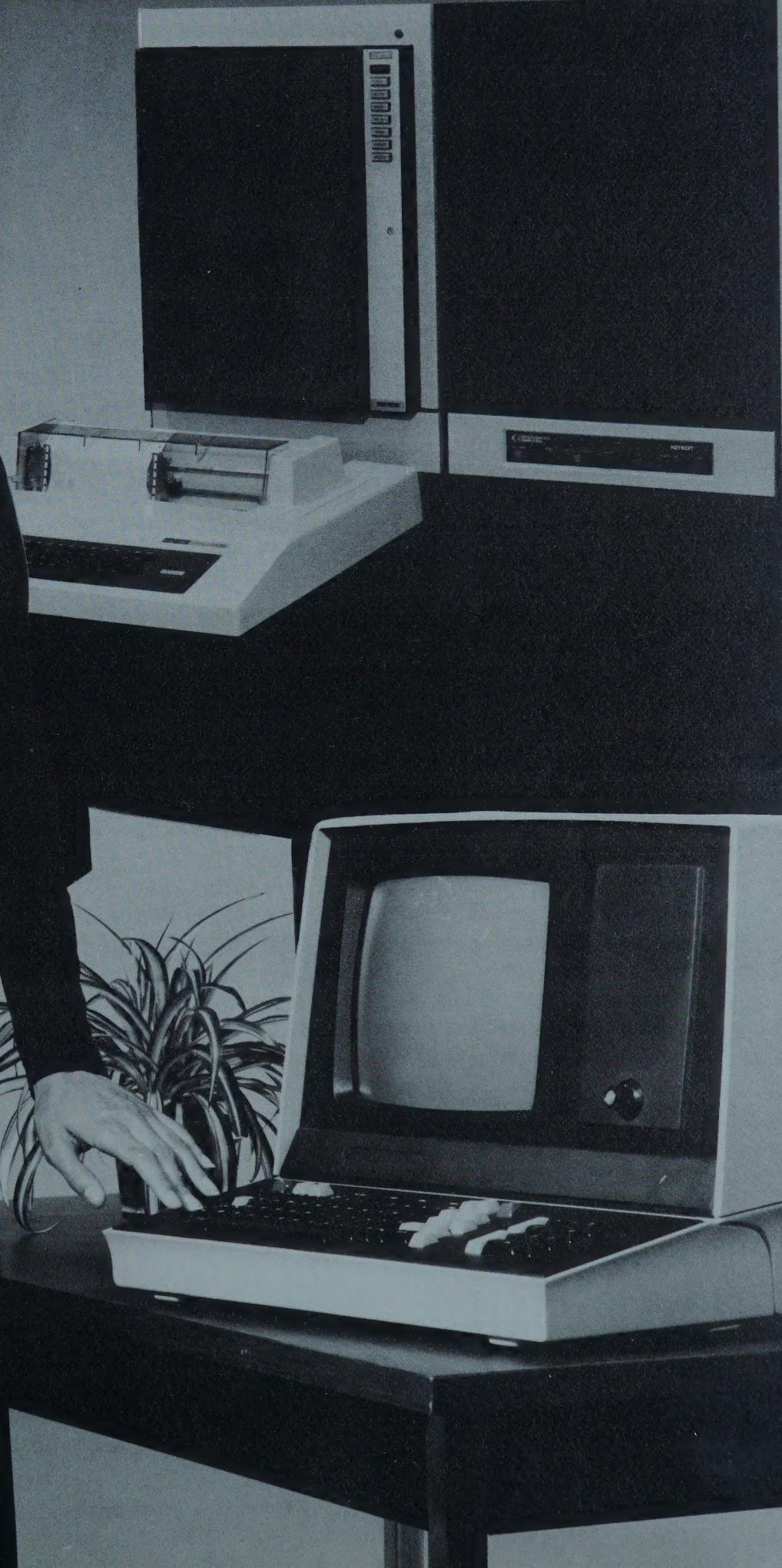
Coopers & Lybrand

SOLICITORS

Kilgour, World, Flood & Ronson

The KEY-EDIT 2024 system is the most sophisticated member of the new Series 2 family of distributed data entry systems.

4comp



President's Report

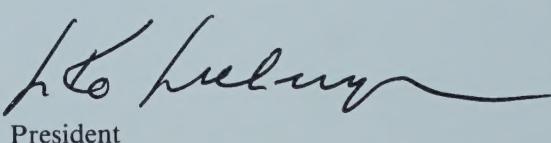
Our Company experienced growth in earnings while expanding end-user sales during the past year. Revenues of \$18.8 million were the combination of \$16.5 million to end-user customers and \$2.3 million to various customers for resale. This mix in sales activity reflects our growing acceptance within the competitive small computer systems market in both Canada and the United States. 1977 was the first year that sales to U.S. based customers exceeded those in Canada. Total U.S. revenue of nearly \$10 million represented a 300% growth in system installations over 1976. End-user sales in Canada increased by \$3 million to \$6.5 million reflecting substantial growth in the home market. Net earnings of \$418,190 were achieved despite a slowing of orders and shipments during the 4th quarter. This slower order rate caused us to temporarily reduce production rates for certain products. We expect this condition to improve during the first six (6) months of 1978 as we release our new "Series 2" product line to the market.

The Series 2, in development since late 1976, combines higher performance at the system and software level while reducing overall costs. This product features distributed data entry processing, increased communications handling and will add file management with large screen inquiry in the Series 2, Model 2024. For production applications the Key-Edit 1000 continues to be the most comprehensive "Key to Disk"

data entry system on the market today. Our license agreement with Fujitsu Ltd., completed in March 1977, provides for the development of powerful intelligent terminal systems as well as other small computer systems and their components. The first product emanating from this license will be introduced this summer in Canada. We had planned to support the initial marketing phase with systems manufactured by Fujitsu. However, the downward movement of the Canadian dollar against the Yen has reduced our buying power and compelled us to go into immediate production of these products in Canada, thereby delaying customer availability until the 4th quarter of 1978.

Dr. Rinzo Iwai was elected to the Consolidated Computer Inc. Board of Directors in June 1977. Dr. Iwai is General Manager of Fujitsu's Small Scale Computer Systems Division and brings to the Board an extensive background in management and computer technology.

Our goals for 1978 include the introduction of Series 2, growth in both the Canadian and United States markets and a continued dedication to improved financial performance in all areas of operation. We are now positioned to experience growth consistent with the capabilities and enthusiasm of our managers and personnel. On behalf of the Board, I wish to thank these individuals for their untiring efforts in the year past.



K. Helmy
President

Financial Highlights

For the 1977 year, the Company realized a profit of \$418,190 on sales of \$18,812,471 compared with a profit of \$24,117 on sales of \$25,298,865 for 1976. Despite the apparent reduction in the Company's sales, new business has actually increased due to the recording in 1976 revenue of approximately \$9,962,000 of prior period leases. This was disclosed in the 1976 annual report. On that basis, new business increased over 1976 by \$3,475,606— a significant portion being from the United States market place. Overall expenses for the year decreased by \$2,401,430 due to the Company's continued expense reduction efforts and reduction in interest cost due to the government's conversion of debt to equity in 1976. The Company's working capital portion increased by \$367,233 and was generated primarily from earnings. This gives the Company \$2,705,490 of working capital and provides a working capital ratio of 1:1.4. The working capital ratio has been further improved throughout the year by a significant reduction in the notes receivable of approximately \$5,074,380 and a corresponding equal reduction in notes payable.

The method of recording sales, utilized beginning in January 1977, was adopted to comply with industry standards of recording revenue and complies with U.S. and Canadian accounting standards. At December 31, 1977 the Company's authorized lines of credit, including the \$5,000,000 term loan, were \$10,550,000. These lines are authorized as follows:

Toronto-Dominion Bank ...	\$ 9,300,000
First National Bank of Boston	1,250,000
TOTAL	<u>\$10,550,000</u>

Subsequent to year end the Company was able to negotiate an additional \$1,000,000 line of credit with the Toronto-Dominion Bank, thus providing the Company with increased operating funds for 1978. The new loan is secured by a first charge on the Company's assets and has not been insured against loss by Her Majesty in Right of Canada as is the case with all other operating lines.

Consolidated Balance Sheet

As at
December 31, 1977

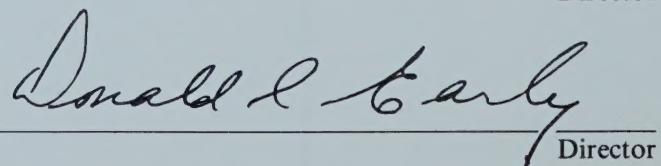
Assets

	1977 \$	1976 \$
CURRENT ASSETS		
Cash and term deposits	32,164	89,311
Accounts receivable — trade	2,752,088	1,564,615
— other	1,266,438	1,796,567
Notes receivable — trade (note 2)	2,770,985	5,074,380
Inventories (notes 1 and 3)	7,587,162	6,919,888
Due from an officer	—	29,000
Prepaid expense	<u>201,511</u>	70,422
	<u>14,610,348</u>	15,544,183
NOTES RECEIVABLE — TRADE (note 2)	684,084	3,455,069
FIXED ASSETS (note 1 and 4)	<u>1,190,703</u>	1,394,104
	<u><u>16,485,135</u></u>	<u><u>20,393,356</u></u>

ON BEHALF OF THE BOARD



Director



Director

Liabilities

	1977 \$	1976 \$
CURRENT LIABILITIES		
Bank loans and advances (note 5)	5,418,489	3,545,604
Accounts payable and accrued liabilities	2,957,395	3,677,452
Due to Ontario Development Corporation	288,485	465,073
Notes payable (note 2)	2,770,985	5,074,380
Taxes payable	215,146	189,059
Current portion of long-term debt	254,358	254,358
	<u>11,904,858</u>	13,205,926
LONG-TERM DEBT , less current portion (note 6)	5,699,421	5,953,779
NOTES PAYABLE (note 2)	684,084	3,455,069
Total liabilities	<u>18,288,363</u>	<u>22,614,774</u>

Deficit less Capital Stock

DEFICIT	<u>24,955,022</u>	<u>25,373,212</u>
CAPITAL STOCK (note 7)		
Special shares	957,565	1,061,940
Common shares	22,194,229	22,089,854
	<u>23,151,794</u>	<u>23,151,794</u>
	<u>(1,803,228)</u>	<u>(2,221,418)</u>
	<u>16,485,135</u>	<u>20,393,356</u>

Consolidated Statement of Earnings and Deficit

For the year ended December 31, 1977

	1977 \$	1976 \$
NET SALES, RENTALS AND SERVICES	18,812,471	25,298,865
COST OF SALES, RENTALS AND SERVICES	11,061,677	15,540,714
	7,750,794	9,758,151
 EXPENSE		
Marketing, administrative and other	5,627,444	6,647,461
Research and development	1,876,160	2,087,088
Government grants	(1,193,296)	(700,000)
Interest on long-term debt	569,006	131,625
Interest on short-term borrowings (net)	453,290	1,567,860
	7,332,604	9,734,034
	418,190	24,117
 PROVISION FOR INCOME TAXES	75,000	125,000
 EARNINGS (LOSS) FOR THE YEAR BEFORE EXTRAORDINARY ITEM	343,190	(100,883)
 EXTRAORDINARY ITEM		
Reduction of income taxes on application of prior years' losses	75,000	125,000
 NET EARNINGS FOR THE YEAR	418,190	24,117
 DEFICIT — BEGINNING OF YEAR	25,373,212	25,397,329
 DEFICIT — END OF YEAR	24,955,022	25,373,212
 EARNINGS PER SHARE02	—

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1977

	1977 \$	1976 \$
SOURCE OF WORKING CAPITAL		
Earnings (loss) for the year before extraordinary item	343,190	(100,883)
Item not affecting working capital —		
Depreciation	313,676	459,682
Provided from operations	656,866	358,799
Extraordinary item	75,000	125,000
Undepreciated cost of equipment sold to leasing company	—	5,272,000
Issue of common shares	—	21,317,454
Reduction of long-term notes receivable	2,770,985	1,780,397
Reduction of long-term debt	—	2,132,954
	3,502,851	30,986,604
USE OF WORKING CAPITAL		
Reduction of long-term notes payable	2,770,985	1,780,397
Purchase of fixed assets	110,275	152,221
Reduction of long-term debt	254,358	—
	3,135,618	1,932,618
INCREASE IN WORKING CAPITAL FOR THE YEAR		
	367,233	29,053,986
WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR		
	2,338,257	(26,715,729)
WORKING CAPITAL — END OF YEAR		
	2,705,490	2,338,257

Notes to Consolidated Financial Statements

For the year ended
December 31, 1977

1. ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include CC Consolidated Computer International, Inc., the wholly-owned United States subsidiary, and La Compagnie Canadienne d'Informatique CCI Ltée, a wholly-owned Quebec subsidiary.

Foreign exchange

Current assets and current liabilities in foreign currencies have been converted to Canadian funds at the approximate year-end rate of exchange. The resulting gains or losses are included in the consolidated statement of earnings.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Fixed assets

Fixed assets are valued at cost, less accumulated depreciation. Depreciation is provided from the date the assets are put into service on a straight-line basis over the estimated useful life, except for leasehold improvements, which are amortized over the life of the lease.

Sale of leased equipment

In the current year the companies adopted the policy of recognizing equipment sales to a leasing company at the time equipment is shipped to the lessee. In prior years, sales were recorded when the documentation for the transfer and sale to the leasing company was complete. The effect of this change on the current year's operations was to increase sales by \$1,717,000 and increase gross profit by approximately \$860,000.

The agreement with the leasing company provides for certain additional amounts to be payable to the Company and its subsidiaries. These amounts have not been recognized in the accounts, as they are payable only if the leasing company achieves certain performance levels. In addition, the companies have made loans to the leasing company in the amount of \$1,764,955 which have been fully provided for in the accounts.

2. NOTES RECEIVABLE AND NOTES PAYABLE

The notes are receivable over a period of 36 months and are insured by the Export Development Corporation. The Company has an agreement with its bankers to finance these notes in equal amounts and on the same terms, to a maximum of \$10,000,000. Notes payable to the bank are secured by a collateral floating charge debenture and a pledge and assignment of the notes receivable. The ability of the Company to make additional borrowings under this agreement with its banker terminated on January 30, 1977.

3. INVENTORIES

	1977	1976
	\$	\$
Marketing	3,413,541	4,113,481
Manufacturing, including work in process	2,484,983	1,691,133
Repair, overhaul and field service	1,688,638	1,115,274
	<hr/> <u>7,587,162</u>	<hr/> <u>6,919,888</u>

Under an inventory purchase agreement, an Ontario government agency purchases certain inventory components from the Company. The Company is obligated to repurchase these inventory components when they are shipped to its customers. The value of that inventory at December 31, 1977, which is not included in these financial statements, is \$1,696,431 (1976 — \$482,942).

4. FIXED ASSETS

	1977		1976	
	Cost \$	Accumulated depreciation \$	Net \$	Net \$
Equipment	2,403,273	1,750,502	652,771	832,768
KEY-EDIT 100 equipment on lease ...	373,970	373,970	—	—
Furniture, fixtures and leasehold improvements	1,126,619	588,687	537,932	561,336
	<u>3,903,862</u>	<u>2,713,159</u>	<u>1,190,703</u>	<u>1,394,104</u>

5. BANK LOANS AND ADVANCES

Book debts, inventories and a \$3,000,000 floating charge debenture have been given as a security for loans and advances of \$8,948,606. The authorized bank line of credit is \$9,300,000 including the \$5,000,000 term loan (note 6). The \$3,000,000 floating charge debenture is subordinate to the \$10,000,000 floating charge debenture referred to in note 2.

6. LONG-TERM DEBT

	1977	1976
	\$	\$
9% unsecured Series Two Notes, to mature \$254,358 per annum of principal amount payable on December 31 of each year from 1975 to 1980 and the balance on December 31, 1981.....	953,779	1,208,137
Bank term loan bearing interest at rates varying from prime plus ½% to 1%, repayable in semi- annual amounts of \$500,000 commencing June 30, 1979 secured by an assignment of book debts and pledge of inventory	5,000,000	5,000,000
Less: Current portion.....	5,953,779	6,208,137
	254,358	254,358
	<u>5,699,421</u>	<u>5,953,779</u>

Under the terms of a bank loan agreement the Company:

- (a) must maintain consolidated working capital of \$2,250,000;
- (b) may not exceed specified aggregate amounts of capital expenditures and lease commitments in any one year.

7. CAPITAL STOCK

The authorized common and special shares have been increased and decreased respectively by a like amount on conversion of special shares into common.

	Common shares of no par value		Convertible special shares without par value		Total shares	
	Shares	\$	Shares	\$	Shares	\$
Authorized	<u>20,478,566</u>		<u>1,771,434</u>		<u>22,250,000</u>	
Issued and fully paid	<u>17,863,247</u>	<u>22,194,229</u>	<u>670,850</u>	<u>957,565</u>	<u>18,534,097</u>	<u>23,151,794</u>

In any one year the non-voting convertible special shares are preferred as to the first 10¢ per share dividend declared. The common shares are entitled to the next 10¢ of dividend declared, and thereafter the two classes of shares participate equally in dividends declared.

From December 31, 1975 the holders of the convertible special shares are entitled to convert any or all of the non-voting special shares into common shares of the Company on a share-for-share basis. 73,134 special shares were converted during the year into 73,134 common shares.

500,000 common shares have been reserved for the exercise of stock options granted to employees and exercisable at various times to June, 1982 at an option price of \$.15 per share.

Under an agreement Fujitsu Limited has received an option to purchase 1,000,000 common shares at a price equal to the greater of \$1.00 per share and the book value per share as at the end of the year preceding the exercise date. The option expires December 20, 1978. 1,000,000 common shares have been reserved for this option.

8. INCOME TAXES

At December 31, 1977, the Company and its U.S. subsidiary had significant losses to carry forward to apply against future profits to reduce income taxes.

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total remuneration paid to directors and senior officers as defined by The Business Corporations Act for the year was \$384,857.

10. LEASE COMMITMENTS

Total rentals paid for the year ended December 31, 1977 and the approximate total of future commitments are:

Year ended December 31, 1977	\$ 608,734
January 1, 1978 to June 30, 1983	\$1,799,000

11. CONTINGENT LIABILITIES

At December 31, 1977 the Company was contingently liable for open letters of credit of \$158,850.

12. SUBSEQUENT EVENT

Subsequent to the year end the companies obtained an additional line of credit of \$30,000,000 under their purchase agreement with the leasing company. A change to the financing structure of the leasing company allowing it to purchase additional equipment out of its current cash flows has also increased the maximum purchases of leased equipment the leasing company can make. Management estimates that the leasing company will have a maximum of approximately \$80,000,000 available for future purchases of leased equipment from the companies.

Sikorsky Aircraft, a division of United Technologies Corporation, located in Stratford, Connecticut, is one of the largest manufacturers of commercial and military helicopters in the world. Sikorsky uses a KEY-EDIT 1000 system to process manufacturing applications.



Auditors' Report

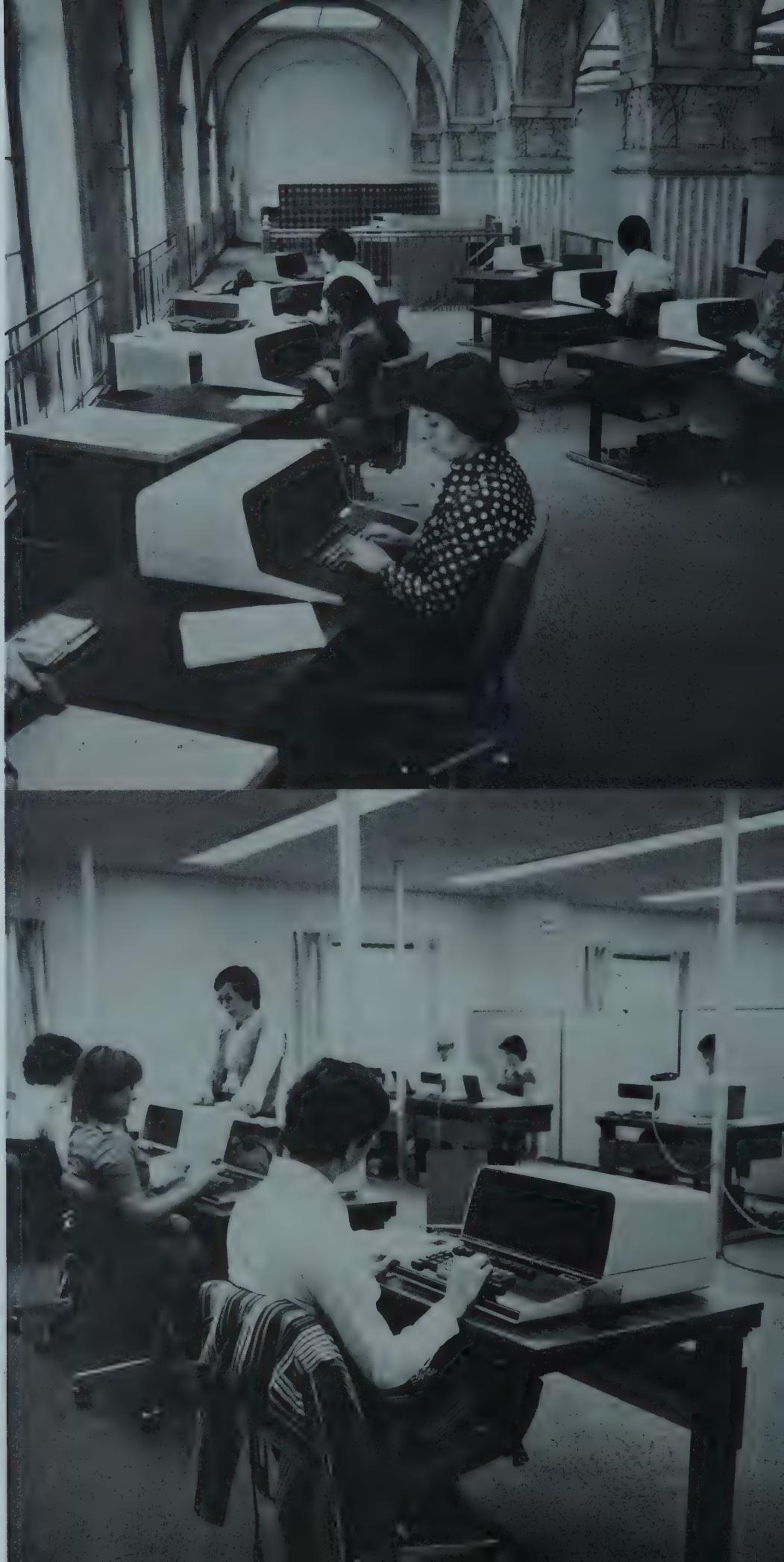
April 12, 1978

TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Consolidated Computer Inc. and its subsidiary companies as at December 31, 1977 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles. Further, in our opinion, except for the change in recognizing sales of leased equipment as referred to in note 1 to the financial statements, such accounting principles have been applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants



Canada Permanent Trust Company, one of the largest Canadian-owned trust companies, uses a KEY-EDIT 60 multiple terminal system to process financial applications and to communicate with a large scale computer system.

La Regie De L'Assurance Maladie du Quebec has one of the largest Key-Edit 1000 installations in the world. Eight systems with 150 data terminals process a large variety of medical applications for the government of Quebec.

OFFICES AND PLANT

Head Office and Manufacturing Plant
2421 Lancaster Road
Ottawa, Ontario
K1B 4L5

CC Consolidated Computer International Inc.
275 Wyman Street
Waltham, Mass.
02154

LaCompagnie canadienne d'informatique [CCI] ltée.
2 Place Quebec, Suite 344
Quebec City, P.Q.
G1R 2B5

SALES AND SERVICE LOCATIONS

Canada

Edmonton, Alta.
Fredericton, N.B.
Halifax, N.S.
Hamilton, Ont.
Kitchener, Ont.
London, Ont.
Montreal, P.Q.
Ottawa, Ont.
Quebec City, P.Q.
Regina, Sask.
Toronto, Ont.
Vancouver, B.C.
Winnipeg, Man.

U.S.A.

Atlanta/Macon, Ga.
Boston, Mass.
Chicago, Ill.
Cleveland/Akron, Ohio
Columbus, Ohio
Dallas/Houston, Tex.
Harrisburg, Pa.
Hartford, Conn.
Los Angeles, Cal.
Minneapolis, Minn.
New York, N.Y.
Philadelphia, Pa.
Phoenix, Ariz.
San Francisco, Cal.
Springfield, Ill.
Washington, D.C.



PRINTED IN CANADA

AR45

CONSOLIDATED COMPUTER INC.
CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION
FOR THE SIX MONTHS ENDED 30 JUNE 1977
(Unaudited)

1977
\$

Source of Funds:

Operation:	
Items not affecting working capital	56,000
Depreciation	145,000
	201,000
Repayment of long term notes receivable	1,674,000
	1,875,000

Use of Funds:

Repayment of long term notes payable	1,674,000
Increase (Decrease) in Working Capital	201,000
Working Capital (Deficiency)	
Beginning of Year	2,339,000
Working Capital (Deficiency)	
End of Period	2,540,000



2421 LANCASTER ROAD, OTTAWA, ONTARIO, CANADA

Report to our Shareholders
for the Six Months ended

June 30, 1977

Six Month Statement

June 30, 1977

To our Shareholders

Net sales, rentals and services for the six month ended 30 June 1977 were \$8,330,000 compared with a reported \$13,947,000 for the same period in 1976. As noted on our 1976 audited financial statements, sales for 1976 included equipment placed on lease in prior years. At June 30, 1976 approximately \$7,781,000 of such business was included in the sales and cost of sales of the 1976 period; thus an actual increase in new business of \$2,164,000 was achieved for the comparable six month period.

The Company's emphasis on the end user market in North America continues, and the trend in sales from OEM to end user has developed as expected resulting in 87.2% of sales for the six months being generated in the end user market.

To assist in this emphasis the Company opened new offices during the six months in Los Angeles, San Francisco, Phoenix and Dallas.

At June 30, 1977 the Company had a North American end user revenue backlog of \$4,100,000.

The Company had a profit for the period of \$56,000 compared with a loss of \$2,466,000 for the same period in 1976. Several major factors contributing to the improvement were:

- (1) shift in sales from unprofitable OEM sales to North American end user sales
- (2) reduction of interest expenses due to conversion of debt to equity
- (3) overall reduction in operating expenses and product cost.

It is anticipated that the trend established in the first six months of the year will continue and the significant improvements will result in the Company's profitability for the next six months.

L.K. Sellmeyer
President

CONSOLIDATED COMPUTER INC. CONSOLIDATED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 1977 (Unaudited)

	1977	1976
	\$	\$
Net Sales, Rentals and Services	8,330,000	13,947,000
Cost of Sales and Services	4,960,000	9,348,000
	3,370,000	4,559,000
Expenses		
Marketing, Administration and other	2,312,000	4,106,000
Research and Development — Net of government grants	1,479,000	1,243,000
Interest	480,000	1,716,000
	3,271,000	7,065,000
Profit (Loss) for this period	56,000	(2,466,000)
Total Number of Common & Special Shares Outstanding	18,534,096	4,437,958
Profit (Loss) per share	* —	(\$.556)

* Earnings per share and fully diluted earnings per share for the current period have not been calculated as the amount is not significant.